FDIC State Profile

Summer 2004

Washington

Despite overall employment growth in Washington, certain areas continue to experience weakness.

- Payroll employment continues to increase though well below the average growth rate achieved during the late 1990s (See Chart 1).

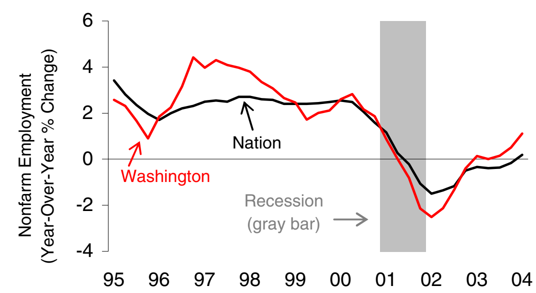
- Employment growth in the professional and business services, and the trade, transportation, and utilities sectors offset sharp declines in the manufacturing sector, particularly in the aerospace and the computer and electronic products manufacturing industries. Boeing accounted for almost all of the 6,300 jobs lost in aerospace manufacturing over the year ending first quarter 2004.

- In the year ending first quarter 2004, the state's unemployment rate decreased by a full 1.1 percentage points to 6.3 percent. However, Washington still had the eighth highest unemployment rate in the nation.

- Sustained civilian aerospace and high-tech sector weaknesses pushed up the average unemployment rate in certain MSAs, particularly in Seattle, Tacoma, and Portland. Layoffs at nuclear power companies Energy Northwest, and Framatome forced the average unemployment rate higher in Richland (See Chart 2). In addition, a twelve-percent decrease in Washington apple production during 2003, which led to layoffs at packinghouses, pressured unemployment rates in some rural areas in the state, including Yakima County.[1,2]

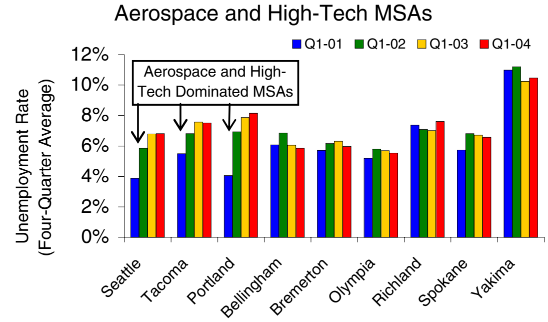
- Employment weakness may adversely affect home prices in some areas. A PMI Mortgage Insurance Co. report ranked the Seattle MSA fourteenth out of fifty metropolitan areas for having a "high risk" of a housing price decline.

Chart 1: Employment Growth in Washington Continued to Exceed the Nation in Early 2004



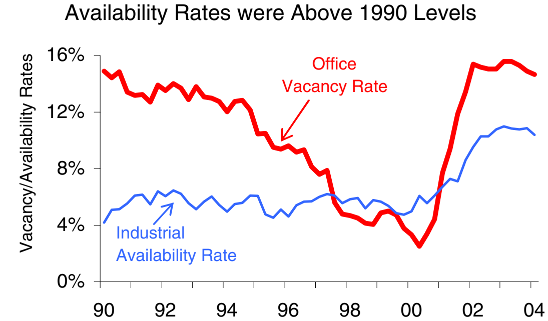
Source: Bureau of Labor Statistics and Bureau of Economic Research

Chart 2: Unemployment Rates Increased Most in Aerospace and High-Tech MSAs



MSA = Metropolitan Statistical Area.
Source: Bureau of Labor Statistics.

Chart 3: Seattle Office Vacancy and Industrial Availability Rates were Above 1990 Levels



Source: Torto Wheaton Research

[1] Washington Agri-facts, Washinton Agricultural Statistics Service, January 28, 2004. http://www.nass.usda.gov/wa/agri2jan.pdf
[2] The apple acreage in Yakima County was at least twice the size of any other county in the nation, according to the 1997 Census of Agriculture.

Softening demand for commercial real estate (CRE) in Seattle could challenge insured institutions with high CRE loan concentrations.[3]

- Demand for commercial properties in the Seattle MSA continued to be weak. The office vacancy rate increased to 14.7 percent as of first quarter 2004, up from 7.7 percent three-years earlier, while the industrial availability rate increased from 6.7 percent to 10.4 percent over the same period (See Chart 3). According to Torto Wheaton Research data, Seattle office rents over the last three years declined 28.4 percent to their first quarter 2004 annual average. In contrast, industrial rents rose 10.4 percent during the same period.

- Higher office vacancy rates in Seattle are a concern because of relatively high exposures to CRE and C&D loans. During the year ending March 31, 2004, the median CRE loan-to-Tier 1 capital ratio among established community institutions based in Washington increased from 340 percent to 372 percent, resulting in more than double the national concentration.[4] The median construction and development (C&D) loan-to-Tier 1 capital ratio was 72.7 percent at the end of the first quarter, nearly triple the 24.5 percent national ratio (See Chart 4). Accentuating the state trend, concentrations among established community institutions based in the Seattle MSA were even higher, with the CRE loan-to-Tier 1 capital ratio at 433 percent, and the C&D-to-Tier 1 capital ratio at 146 percent.

- Despite increased vacancy rates, the median CRE loan-delinquency ratio reported by Washington's established community institutions improved, falling from 0.55 percent to 0.36 percent from March 2003 to March 2004. The increase is consistent with the decline in the state's median total loan-delinquency ratio from 1.48 percent to 1.01 percent year-over-year as of March 31, 2004.

- Improved underwriting and transparency of CRE transactions have helped stem CRE credit problems. Additionally, lower interest rates have enabled property owners to reduce financing costs and offset the effects of lower rental income. Low interest rates also are helping keep capitalization rates low and property values stable. Going forward, an increase in interest rates may challenge insured institutions.

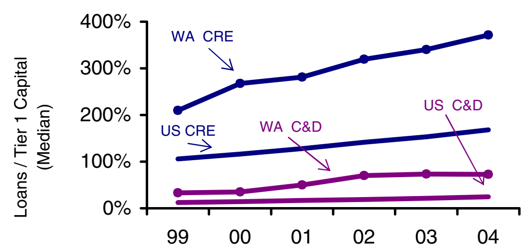
Earnings and asset quality declined among insured institutions headquartered in Washington.

- The median return on assets (ROA) for insured institutions headquartered in Washington decreased to 1.01 percent as of March 31, 2004, down from 1.06 percent one-year earlier, and just below the national median. Profitability declined because of falling net interest margins (NIMs) and increased overhead costs.

- As interest rates declined during 2001, 2002 and 2003, thrift NIMs benefited while banks, which accounted for 78 percent of insured institutions in Washington, saw margins narrow (See Chart 5).

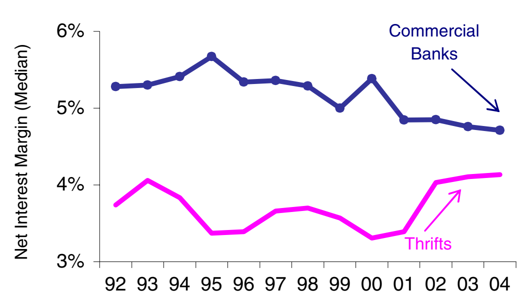
- Thirty percent of institutions headquartered in the state as of first quarter 2004 have been in operation less than nine years, more than double the 14 percent reported for the nation. These "young" institutions in Washington were not yet as profitable as more established insured institutions. These institutions reported a median ROA of 0.62 percent as of March 2004, slightly below the 0.64 percent reported for the nation. Compared to older Washington institutions, profitability was held back by higher overhead and provision expenses.

Chart 4: Washington Institutions Reported High Concentrations of CRE and C&D Lending



Notes: Excludes institutions less than 3 years old, over $1 billion in assets, and specialty institutions. CRE = commercial real estate; C&D = construction and development.
Source: Bank and Thrift Call Reports (March of each year)

Chart 5: In Washington, Margins Improved for Thrifts, But Deteriorated for Banks



Source: Washington Bank and Thrift Call Reports (March of each year)

[3]CRE loans include mortgages secured by nonfarm-nonresidential, multi-family and construction projects.
[4]Defined as insured institutions open more than three years, with assets of less than $1 billion, and excludes specialty institutions.

Washington at a Glance

General Information	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Institutions (#)	99	101	99	99	103
Total Assets (in thousands)	80,863,268	75,006,782	69,229,702	74,946,729	68,120,153
New Institutions (# < 3 years)	6	10	11	16	19
New Institutions (# < 9 years)	30	34	33	34	32

Capital	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Tier 1 Leverage (median)	10.00	9.42	9.40	10.09	10.64

Asset Quality	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Past-Due and Nonaccrual (median %)	1.08%	1.42%	1.75%	1.28%	1.05%
Past-Due and Nonaccrual >= 5%	9	8	7	6	4
ALLL/Total Loans (median %)	1.36%	1.38%	1.25%	1.14%	1.10%
ALLL/Noncurrent Loans (median multiple)	2.11	1.79	1.55	1.87	1.83
Net Loan Losses/Loans (aggregate)	0.11%	0.21%	0.26%	0.17%	0.10%

Earnings	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Unprofitable Institutions (#)	4	6	8	13	16
Percent Unprofitable	4.04%	5.94%	8.08%	13.13%	15.53%
Return on Assets (median %)	1.01	1.06	0.95	0.95	1.03
25th Percentile	0.58	0.63	0.64	0.57	0.59
Net Interest Margin (median %)	4.56%	4.53%	4.65%	4.61%	5.16%
Yield on Earning Assets (median)	6.05%	6.47%	7.28%	8.70%	8.54%
Cost of Funding Earning Assets (median)	1.45%	1.93%	2.50%	4.24%	3.67%
Provisions to Avg. Assets (median)	0.18%	0.23%	0.22%	0.21%	0.20%
Noninterest Income to Avg. Assets (median)	0.56%	0.62%	0.59%	0.60%	0.48%
Overhead to Avg. Assets (median)	3.43%	3.64%	3.61%	3.66%	3.74%

Liquidity/Sensitivity	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Loans to Deposits (median %)	90.62%	89.23%	90.93%	89.72%	88.61%
Loans to Assets (median %)	73.56%	72.36%	75.53%	75.63%	72.85%
Brokered Deposits (# of Institutions)	38	33	30	21	12
Bro. Deps./Assets (median for above inst.)	2.81%	3.02%	3.36%	2.72%	0.63%
Noncore Funding to Assets (median)	20.84%	21.62%	22.11%	21.94%	17.66%
Core Funding to Assets (median)	66.85%	66.41%	65.93%	65.69%	68.51%

Bank Class	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
State Nonmember	60	62	61	59	63
National	13	14	14	15	15
State Member	4	3	2	2	2
S&L	6	7	7	7	7
Savings Bank	2	1	1	2	2
Stock and Mutual SB	14	14	14	14	14

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
Seattle-Bellevue-Everett WA PMSA	38	52,136,414	38.38%	64.47%
No MSA	29	8,820,933	29.29%	10.91%
Tacoma WA PMSA	8	3,044,807	8.08%	3.77%
Spokane WA	6	9,979,094	6.06%	12.34%
Olympia WA PMSA	5	1,551,444	5.05%	1.92%
Yakima WA	3	1,365,609	3.03%	1.69%
Portland-Vancouver OR-WA PMSA	3	1,400,838	3.03%	1.73%
Bremerton WA PMSA	3	928,163	3.03%	1.15%
Richland-Kennewick-Pasco WA	2	230,998	2.02%	0.29%
Bellingham WA	2	1,404,968	2.02%	1.74%